

LAWRENCE COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2014

*Daniel S. Howard, P.S.C.
Certified Public Accountant
Louisa, Kentucky*

LAWRENCE COUNTY SCHOOL DISTRICT

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LAWRENCE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lawrence County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lawrence County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 4-8 and 40-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lawrence County School District's basic financial statements. The budget comparison and the combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The budget comparison has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, on our consideration of the Lawrence County School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lawrence County School District's internal control over financial reporting and compliance.

Daniel J. Howard, CPA

December 12, 2014

**LAWRENCE COUNTY SCHOOL DISTRICT - LOUISA, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

As management of the Lawrence County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$4,449,137.
- The ending cash balance for the District was \$1,715,219.
- The General Fund had \$19,207,436 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was \$18,032,625 in General Fund expenditures. Included in both revenue and expenditures was an offsetting entry for on-behalf payments made by the state in the amount of \$3,172,696.
- The fundable average daily attendance increased from \$2,116.48 in 2012-2013 to \$2,137.74 in 2013-2014 resulting in additional state funding levels-SEEK in the general fund. However, there was a decrease in the per-pupil SEEK funding from \$3,833 in 2012-13 to \$3,827 in 2013-2014.
- Bonds are issued as the local Facilities Planning Committee developed a long-range facilities plan in accordance with KAR1:001. Bonds are issued as the District renovates facilities consistent with the long-range plan. The District's total debt increased by \$1,276,246 during the current fiscal year. As of the date of this report the District's current bonding potential is a little over \$3.7 million. The District's credit rating as stated in Moody's Rating Service is Aa3.
- The District remains committed to maintaining an excellent fleet of buses. Four new buses were leased during the 2013-2014 school year. The annual lease payment for 2014-2015 will be \$52,861.24.
- The District continued construction upgrades with major renovation at Lawrence County High School during 2013-2014. Phase I is partially complete with a total cost of \$5,408,970 as of June 30, 2014. Phase II was added to the high school renovation schedule in 2013-2014 with a total cost of \$2,206,075 in upgrades. The grand total in construction renovation at Lawrence County High School through 2013-2014 was \$7,615,045.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14.2 million as of June 30, 2014.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2014

The District's combined net position decreased 1.61% from the prior year. They decreased from \$14,396,059 to \$14,164,558. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's combined governmental & business activities.

	<u>JUNE 30</u>		<u>Percent Change</u>
	<u>2014</u>	<u>2013</u>	
Table 1			
Current Assets	\$ 2,283,144	\$ 5,200,050	-56.09%
Noncurrent Assets	<u>32,093,302</u>	<u>28,740,568</u>	11.67%
Total Assets	<u>34,376,446</u>	<u>33,940,618</u>	1.28%
 Deferred Outflows of Resources	 360,451	 365,793	 -1.46%
Current Liabilities	1,622,628	2,521,434	-35.65%
Non Current Liabilities	<u>19,116,004</u>	<u>17,388,918</u>	9.93%
Total Liabilities	<u>20,738,632</u>	<u>19,910,352</u>	4.16%
 Net Assets			
Investment in capital assets (net of debt)	\$ 13,013,164	11,144,933	16.76%
Restricted	489,657	949,298	-48.42%
Unrestricted Fund Balance	<u>661,737</u>	<u>2,301,828</u>	-71.25%
Total Net Position	<u>\$ 14,164,558</u>	<u>14,396,059</u>	-1.61%

The following are significant current year transactions that have had an impact on the Statement of Net Position.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2014, net of Interfund transfers, were \$25.91 million.
- General fund budget compared to actual revenue (net of on-behalf payments) varied slightly from line item to line item with the ending actual balance being \$324,036 more than budget or approximately 0.98%.
- The total cost of all programs and services was \$17.95 million net of debt service. General fund budget revenues and expenditures compared to actual varied significantly in several categories due to on-behalf payments in the amount of \$3,172,696 which were included in expenditures and revenue while the budget was not amended to reflect the on-behalf payments. Other significant differences were noted in Property Taxes which were under budget in the amount of \$351,951 and Franchise Taxes which were over budget by \$464,805. Motor Vehicle Taxes were over budget by \$21,748. Utility Taxes were over budget in the amount of \$52,978. Unmined Minerals were over budget by \$20,176. Penalties & Interest income was over budget by \$17,653. Other local revenue slightly exceeded the amount budgeted by \$1,450 and Miscellaneous Revenues was \$8,471 over budget. Revenue was under budget in USF Reimbursement by \$86,865 but paperwork is filed to receive reimbursement. Medical reimbursements have once again exceeded the budget in the amount of \$11,698. Loss of equipment and sale of equipment resulted in additional revenue in the amount of \$37,013. In expenditures, instruction (net of on-behalf payments) was under budget by \$2,119. Student support and instructional support staff (net of on-behalf payments) was under budget by \$82,055. District administrative support (net of on-behalf payments) was over budget by \$32,953. School administrative support (net of on-behalf payments) was under budget by \$19,269. Plant operation & maintenance (net of on-behalf payments) was under budget by \$67,778. Student transportation (net of on-behalf payments) did not vary significantly. Debt service finished under budget by \$65,012 due to the lack of a decision in the settlement with KSBIT. Due to the technology offer of assistance being decreased, the fund transfer was \$12,897 under budget.

The following table presents a district wide summary of revenue and expense for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 2

<u>Table 2</u>	<u>YEAR ENDED</u>		<u>Percent</u>
	<u>6/30/2014</u>	<u>6/30/2013</u>	<u>Change</u>
Revenue:			
Charges for services	\$ 135,965	\$ 275,674	-50.68%
Operating Grants & Contributions	5,323,456	5,208,650	2.20%
Capital Grants & Contributions	84,045	134,608	-37.56%
Taxes	4,900,238	4,251,544	15.26%
State & formula grants	13,863,729	14,219,626	-2.50%
Investment earnings	12,153	28,234	-56.96%
Miscellaneous	<u>177,472</u>	<u>389,933</u>	-54.49%
Total revenue	24,497,058	24,508,269	-0.05%
Expenses:			
Instruction	13,108,573	12,591,172	4.11%
Support services:	9,278,699	9,910,622	-6.38%
Facilities acquisitions & construction	-	-	-
Community service activities	255,868	251,236	1.84%
Other	-	28,578	100.00%
Interest on long term debt	450,761	444,400	1.43%
Food service expense	<u>1,634,658</u>	<u>1,501,812</u>	8.85%
Total expense	24,728,559	24,727,820	0.00%
Revenues in excess of expenses	\$ (231,501)	\$ (219,551)	5.44%

General Fund Revenue

The majority of revenue was derived from state funding, net of on- behalf payments, which made up 72% of total revenue with local taxes making up 22% of the total. The remaining 6% of the revenue received was from federal sources and sale/loss of equipment.

Budget Allocation

Board paid and Site Based Decision Making Councils expended \$8.99 million of the general fund budget. The remaining general fund was expended by special needs, which spent \$1.93 million, transportation cost were \$1.85 million, plant operations \$2.56 million, and other support services \$1.43 million.

School Allocation

Regular Instruction accounts for 75% of the school level expenditures.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency, however the state recommends 5-10%. The district adopted a budget with a 2.3% contingency (\$407,126). The beginning General Fund cash balance for the beginning of this fiscal year was \$1,866,594.

Questions regarding this report should be directed to Superintendent, Robbie L. Fletcher, EdD (606) 638-9671 or to Edris Humphrey, Director of Finance (606) 638-9671 or by mail at 50 Bulldog Lane, Louisa, Kentucky 41230.

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

Assets	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 1,406,131	\$ 309,088	\$ 1,715,219
Inventory	-	41,578	41,578
Accounts receivable			
Taxes - current	173,540	-	173,540
Taxes - delinquent	13,259	-	13,259
Accounts receivable	11,413	438	11,851
Intergovernmental - State	1,163	-	1,163
Intergovernmental - Indirect Federal	285,750	35,266	321,016
Intergovernmental - Direct Federal	5,518	-	5,518
Prepaid items	1,611	-	1,611
Total current assets	1,898,385	386,370	2,283,144
Noncurrent Assets			
Qualified Zone Academy Bonds-Escrow Funds	164,682	-	164,682
Capital assets, net of accumulated depreciation	32,040,073	53,229	32,093,302
Total noncurrent assets	32,204,755	53,229	32,093,302
Total assets	34,103,140	439,599	34,376,446
Deferred Outflows of Resources			
Debt discount	127,799	-	127,799
Deferred charge on bond refunding	232,652	-	232,652
Total deferred outflows of resources	360,451	-	360,451
Liabilities			
Current Liabilities			
Accounts payable	122,787	1,220	124,007
Accrued payroll and related expenses	33,135	-	33,135
Unearned revenue	82,797	-	82,797
Current portion of bond obligations	1,104,742	-	1,104,742
Current portion of capital leases	78,428	-	78,428
Current portion of accrued sick leave	58,249	-	58,249
Interest payable	141,270	-	141,270
Total current liabilities	1,621,408	1,220	1,622,628
Noncurrent Liabilities			
Noncurrent portion of bond obligations	17,563,547	-	17,563,547
Noncurrent portion of capital leases	498,103	-	498,103
Noncurrent portion of KSBIT assessment	364,207	-	364,207
Noncurrent portion of accrued sick leave	690,147	-	690,147
Total noncurrent liabilities	19,116,004	-	19,116,004
Total liabilities	20,737,412	1,220	20,738,632
Net Position			
Invested in capital assets, net of related debt	12,959,935	53,229	13,013,164
Restricted for:			
Future construction	448,079	-	448,079
SFCC escrow	-	-	-
Inventory	-	41,578	41,578
Unrestricted	318,165	343,572	661,737
Total net position	\$ 13,726,179	\$ 438,379	\$ 14,164,558

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Business-Type Activities	
					Governmental Activities	Total
Governmental Activities:						
Instruction	\$ 13,108,573	\$ 32,150	\$ 3,732,190	\$ 84,045	\$ (9,260,188)	\$ (9,260,188)
Support services:						
Student	807,684	-	-	-	(807,684)	(807,684)
Instruction staff	1,349,224	-	-	-	(1,349,224)	(1,349,224)
District administrative	490,299	-	-	-	(490,299)	(490,299)
School administrative	1,012,401	-	-	-	(1,012,401)	(1,012,401)
Business	254,636	-	-	-	(254,636)	(254,636)
Plant operation and maintenance	3,246,352	-	-	-	(3,246,352)	(3,246,352)
Student transportation	2,118,103	-	-	-	(2,118,103)	(2,118,103)
Central office	-	-	-	-	-	-
Non-instructional	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-
Community service activities	255,868	-	-	-	(255,868)	(255,868)
Other	-	-	-	-	-	-
Interest on long-term debt	450,761	-	-	-	(450,761)	(450,761)
Total governmental activities	23,093,901	32,150	3,732,190	84,045	(19,245,516)	(19,245,516)
Business-Type Activities:						
Food service	1,634,658	103,815	1,591,266	-	-	60,423
Total business-type activities	1,634,658	103,815	1,591,266	-	60,423	60,423
Total primary government	\$ 24,728,559	\$ 135,965	\$ 5,323,456	\$ 84,045	(19,245,516)	(19,185,093)
General Revenues:						
Taxes:						
			Property taxes		3,621,680	3,621,680
			Motor vehicle taxes		221,748	221,748
			Utility taxes		936,634	936,634
			Unmined mineral		120,176	120,176
			Investment earnings		634	12,153
			State and formula grants		13,819,978	13,863,729
			Gain (loss) on sale of fixed assets		112,754	112,754
			Miscellaneous		64,718	64,718
			Change in net position		104,808	(231,501)
			Net position-beginning		333,571	14,396,059
			Net position-ending		\$ 438,379	\$ 14,164,558

LAWRENCE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Special Revenue	Construction Fund	DEBT SERVICE FUND	Other Governmental Funds	Total Governmental Funds
Assets and Resources:						
Cash and cash equivalents	\$ 1,130,227	\$ (195,569)	\$ 471,473	\$ -	\$ -	\$ 1,406,131
Inventory	-	-	-	-	-	-
Accounts receivable						
Taxes - current	173,540	-	-	-	-	173,540
Taxes - delinquent	13,259	-	-	-	-	13,259
Accounts receivable	11,413	-	-	-	-	11,413
Intergovernmental - State	-	1,163	-	-	-	1,163
Intergovernmental - Indirect Federal	-	285,750	-	-	-	285,750
Intergovernmental - Direct Federal	-	5,518	-	-	-	5,518
Prepaid expenses	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Total assets and resources	\$ 1,328,439	\$ 96,862	\$ 471,473	\$ -	\$ -	\$ 1,896,774
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 85,328	\$ 14,065	\$ 23,394	\$ -	\$ -	\$ 122,787
Accrued payroll and related expenses	33,135	-	-	-	-	33,135
Due to other funds	-	-	-	-	-	-
Current portion of accumulated sick leave	58,249	-	-	-	-	58,249
Unearned revenue	-	82,797	-	-	-	82,797
Total liabilities	176,712	96,862	23,394	-	-	296,968
Fund Balances						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	448,079	-	-	448,079
Committed	-	-	-	-	-	-
Assigned:						
Purchase obligations	714,558	-	-	-	-	714,558
Unassigned	437,169	-	-	-	-	437,169
Total fund balances	1,151,727	-	448,079	-	-	1,599,806
Total liabilities and fund balances	\$ 1,328,439	\$ 96,862	\$ 471,473	\$ -	\$ -	\$ 1,896,774

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balance per fund financial statements	\$ 1,599,806
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	32,040,073
Payments into escrow funds for the future retirement of Qualified Zone Academy Bonds were recorded as expenditures in the fund financial statements but are recorded as a noncurrent asset in the Statement of Net Position.	164,682
Deferred outflows of resources are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the Statement of Net Position	360,451
Expenditures for insurance premiums which extend over more than one accounting period have not been reported in the fund financial statements, but they are reported in the statement of net assets.	1,611
Certain liabilities (such as bonds payable, capital leases payable, the long-term portion of accrued sick leave, KSBIT assessments, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(20,440,444)</u>
Net position for governmental activities	\$ <u><u>13,726,179</u></u>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2014

	General Fund	Special Revenue	Construction Fund	DEBT SERVICE FUND	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources						
Taxes						
Property	\$ 3,621,680	\$ -	\$ -	\$ -	\$ -	3,621,680
Motor vehicle	221,748	-	-	-	-	221,748
Utilities	515,978	-	-	-	420,656	936,634
Unmined mineral	120,176	-	-	-	-	120,176
Tuition and fees	6,450	-	-	-	-	6,450
Earnings on investments	3,724	152	3,779	-	1,820	9,475
Other local revenues	72,717	2,281	17,701	-	3,500	96,199
Intergovernmental - state	12,708,317	1,139,625	28,500	549,609	562,052	14,988,103
Intergovernmental - indirect federal	81,698	2,497,377	-	-	-	2,579,075
Intergovernmental - direct federal	-	63,254	-	-	-	63,254
Total revenues	17,352,488	3,702,689	49,980	549,609	988,028	22,642,794
Expenditures:						
Instruction	10,025,551	2,589,853	-	-	-	12,615,404
Support services:						
Student	724,604	23,073	-	-	-	747,677
Instruction staff	562,926	877,775	-	-	-	1,440,701
District administrative	481,932	-	-	-	-	481,932
School administrative	1,004,547	-	-	-	-	1,004,547
Business	248,002	-	-	-	-	248,002
Plant operation and maintenance	2,761,916	-	-	-	-	2,761,916
Student transportation	2,162,751	-	-	-	-	2,162,751
Central office	-	-	-	-	-	-
Non-instructional	-	-	-	-	-	-
Facilities acquisition and construction	-	-	3,800,424	-	-	3,800,424
Community service activities	6,110	245,852	-	-	3,500	255,462
Other	40,267	-	-	1,625,075	-	1,665,342
Total expenditures	18,018,606	3,736,553	3,800,424	1,625,075	3,500	27,184,158
Excess (deficit) of revenues over expenditures	(666,118)	(33,864)	(3,750,444)	(1,075,466)	984,528	(4,541,364)
Other Financing Sources (Uses)						
School Building Revenue Bond Series of 2013	-	-	-	2,320,000	-	2,320,000
Sale or compensation for loss of assets	37,013	-	108,076	-	-	145,089
Operating transfers in	109,521	33,864	2,270,113	1,005,329	-	3,418,827
Operating transfers out	(37,103)	-	-	(2,249,863)	(1,056,819)	(3,343,785)
Total other financing sources (uses)	109,431	33,864	2,378,189	1,075,466	(1,056,819)	2,540,131
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	(556,687)	-	(1,372,255)	-	(72,291)	(2,001,233)
Fund balance, July 1, 2013, as originally stated	1,708,414	-	1,820,334	-	72,291	3,601,039
Prior period adjustment	-	-	-	-	-	-
Fund balance, June 30, 2014	\$ 1,151,727	\$ -	\$ 448,079	\$ -	\$ -	\$ 1,599,806

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2014

Net change in total fund balances per fund financial statements	\$ (2,001,233)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays is over or (under) depreciation expense for the year.	2,983,016
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,077,078
Proceeds from the issue of Bonds are recorded in the statement of net assets and are not reflected in the statement of net activities.	(2,281,543)
Payments into escrow funds for the future retirement of Qualified Zone Academy Bonds were recorded as expenditures in the fund financial statements but are recorded as a noncurrent asset in the Statement of Net Position.	164,682
Proceeds from the sale of fixed assets are recorded in the fund financial statements but this amount is reduced by the undepreciated basis of the assets in the Statement of Activities.	(32,335)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(245,974)</u>
Change in net position of governmental activities	\$ <u><u>(336,309)</u></u>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 309,088
Inventory	41,578
Accounts receivable	
Taxes - current	-
Taxes - delinquent	-
Accounts receivable	438
Intergovernmental - state	-
Intergovernmental - indirect federal	35,266
Intergovernmental - direct federal	-
Interest receivable	-
Investments	-
	<hr/>
Total current assets	386,370
	<hr/>
<u>Noncurrent Assets</u>	
Capital assets, net	53,229
	<hr/>
Total noncurrent assets	53,229
	<hr/>
Total assets	439,599
	<hr/>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	1,220
Accrued payroll and related expenses	-
Due to other funds	-
Deferred revenue	-
Current portion of long-term obligations	-
Accrued sick leave	-
	<hr/>
Total current liabilities	1,220
	<hr/>
<u>Net Position</u>	
Net investment in capital assets	53,229
Restricted for inventory	41,578
Unrestricted	343,572
	<hr/>
Total net position	\$ 438,379
	<hr/>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year ended June 30, 2014

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 103,815
Federal grants	1,254,701
State grants	11,993
Revenue for/on behalf payments	324,572
Donated commodities	<u>43,751</u>
Total operating revenues	1,738,832
Operating Expenses:	
Milk and food	516,562
Payroll and benefits	863,352
Supplies	103,366
Services	57,807
Depreciation	18,530
Indirect costs	<u>75,041</u>
Total operating expenses	1,634,658
Operating income	104,174
Non-Operating Revenues (Expenses):	
Retirement of Capital Assets	-
Interest income	634
Other services	-
Fund Transfers In	<u>-</u>
Total non-operating revenues	634
Net income (loss)	104,808
Retained earnings, July 1, 2013	333,571
Prior period adjustment	<u>-</u>
Retained earnings, June 30, 2014	\$ <u><u>438,379</u></u>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2014

Cash Flows from Operating Activities

Cash received from:	
Lunchroom sales	\$ 103,092
Government grants	1,370,698
Other activities	285
Cash paid to/for:	
Employees	(540,069)
Supplies	(624,545)
Indirect costs	(75,041)
Other activities	<u>(53,613)</u>

Net cash provided by operating activities 180,807

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets	<u>(14,321)</u>
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Net cash provided by capital and related financing activities (14,321)

Cash Flows from Investing Activities

Receipt of interest income	<u>634</u>
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Net increase in cash and cash equivalents 167,120

Balances, beginning of year 141,968

Balances, end of year \$ 309,088

Reconciliation of operating income (loss) to net cash provided
(used) by operating activities

Operating income \$ 104,174

Adjustments to reconcile operating income to net cash provided
(used) by operating activities

Depreciation 18,530

Change in assets and liabilities

 Receivables 59,815

 Inventory 209

 Accounts payable (631)

 Accrued payroll & benefits (1,290)

Net cash provided by operating activities \$ 180,807

Schedule of non-cash transactions:

 Donated commodities received from federal government \$ 43,751

 Depreciation 18,530

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 135,928
Accounts receivable	<u>932</u>
Total assets	<u>136,860</u>
Liabilities	
Accounts payable	16,346
Due to student groups	<u>120,514</u>
Total liabilities	<u>136,860</u>
Net Assets Held in Trust	\$ <u><u>-</u></u>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lawrence County School District have been prepared to conform with Accounting Principles General Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies.

Reporting Entity

The Lawrence County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Lawrence County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Lawrence County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Lawrence County Board of Education Finance Corporation – On June 17, 1991, the Lawrence County, Kentucky, Board of Education resolved to authorize the establishment of the Lawrence County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Lawrence County Board of Education also comprise the Corporation's Board of Directors.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 38. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a major fund of the district.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the district.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

II. Proprietary Fund Type (Enterprise Fund) - continued

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Due to GASB, this now has been re-characterized as unearned revenue.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.499 per \$100 valuation for property, and \$.22 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of: \$50,000-land improvements; \$50,000-buildings & building improvements; \$5,000-software; \$50,000-leasehold improvements; \$5,000-vehicles and \$5,000 equipment. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
Other	7-10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the vesting payment method. The District estimates its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

The food service fund uses the first-in, first-out method.

Prepaid Assets

On government-wide financial statements, payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

On fund financial statements, expenditures for insurance and similar services extending over more than one accounting period are accounted for as expenditures of the period of acquisition.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualifies for reporting in this category. It is the deferred charge on debt discount and on bond refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The debt discount is deferred and amortized over the life of the debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balances

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

- Non-spendable-permanently nonspendable by decree of the donor, such as an endowment, or items, which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand
- Restricted-legally restricted under federal or state law, bond authority, or grantor contract
- Committed-commitments passed by the board
- Assigned-Funds assigned to management priority including issued encumbrances
- Unassigned-Funds available for future operations.

GASB statement 54 provides that when governments have not established a spending policy, the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those classifications could be used.

Encumbrances are not liabilities and, therefore are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014, in the governmental funds balance sheet.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net positions reported as unrestricted is the net position that does not meet the definition of "net investments in capital assets" or "restricted net position".

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Recently Issued and Adopted Accounting Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2014. The components of net position were renamed to reflect the requirements of this statement.

In March 2012, the GASB issued Statement 66, *Technical Corrections-2012-an amendment to GASB Statements No. 10 and No 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASB 66 does not have any impact on the District's financial statements.

In March 2012 the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recently Issued Accounting Pronouncements

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring, that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, and later). The District is currently evaluating the effects of this statement on its financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,851,147. Of the total cash balance, \$264,583 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE C – CASH AND CASH EQUIVALENTS-CONTINUED

Cash and cash equivalents at June 30, 2014 consisted of the following

	Bank Balance	Book Balance
Inez Deposit	\$ 2,305,284	\$ 1,836,813
Peoples Security	<u>14,583</u>	<u>14,334</u>
	\$ <u>2,319,867</u>	\$ <u>1,851,147</u>

Breakdown per financial
statements:

Governmental	\$ 1,406,131
Business type activities	309,088
Activity funds	<u>135,928</u>
	\$ <u>1,851,147</u>

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Land	\$ 334,650	\$ -	\$ -	\$ 334,650
Buildings and improvements	34,375,371	2,230,150	-	36,605,521
Technology equipment	2,976,016	-	22,202	2,953,814
Vehicles	3,410,428	657,141	373,359	3,694,210
General equipment	1,152,337	140,501	7,900	1,284,938
Construction in progress	4,005,142	5,599,492	4,005,142	5,599,492
Totals at historical cost	46,253,944	8,627,284	4,408,603	50,472,625
Less: accumulated depreciation				
Buildings and improvements	11,281,479	818,771	-	12,100,250
Technology equipment	2,678,831	148,724	15,100	2,812,455
Vehicles	2,680,785	209,065	354,446	2,535,404
General equipment	929,720	56,303	1,580	984,443
Total accumulated depreciation	17,570,815	1,232,863	371,126	18,432,552
Governmental Activities				
Capital Assets - Net	\$ 28,683,129	\$ 7,394,421	\$ 4,037,477	\$ 32,040,073
Business-Type Activities				
Food service equipment	\$ 705,539	\$ 7,900	\$ -	\$ 713,439
Food service technology	6,544	6,419	-	12,963
Totals at historical cost	712,083	14,319	-	726,402
Less: accumulated depreciation				
Food service equipment	650,130	11,566	-	661,696
Food service technology	4,512	6,964	-	11,476
Total accumulated depreciation	654,642	18,530	-	673,172
Business-Type Activities				
Capital Assets - Net	\$ 57,441	\$ (4,211)	\$ -	\$ 53,230

Depreciation expense has been charged to the following functions in the statement of activities:

Instruction	\$ 455,721
Student support services	60,007
Instruction staff	138
District Administration	8,367
School administration	7,854
Business	6,634
Plant operation & maintenance	500,669
Student transportation	193,067
Community service activities	406
Food service	18,530
TOTAL	\$ 1,251,393

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>		<u>Amount of Issue</u>	<u>Rates</u>
2008	Refinancing	4,285,000	3.350%
2009	Refinancing	306,631	1.000% - 3.000%
2010	Refinancing	1,815,000	0.700% - 1.500%
2012	Refinancing	2,020,000	0.500% - 1.900%
2012	Energy Bonds	4,265,000	0.800% - 2.650%
2012	Revenue	1,635,000	0.700% - 3.000%
2012	QZAB	5,000,000	4.000%
2013	Revenue	2,320,000	1.200% 4.350%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lawrence County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

On September 01, 2013, the district issued \$2,320,000 in School Building Revenue Bonds with an interest rate ranging from 1.200% to 4.350%. The School Facilities Construction Commission participation in this issue is \$793,434 while the district portion is \$1,526,566.

The December 01, 2012 bond issue, in the amount of \$5,000,000, is a tax credit Qualified Zone Academy Bond. The Kentucky School Facility Construction Commission is to make equal annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent, in the amount of \$162,638 commencing December 1, 2013 and such amount shall be held and invested by the escrow agent for payment of \$5,000,000 at the bonds maturity on December 1, 2035. The interest subsidy will be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on bonds or reimbursement to the issuer for such payment.

On January 1, 2012, the Lawrence County School District issued \$2,020,000 in School Building Refunding Revenue Bonds with an interest rate ranging from 0.500% to 1.900% to advance refund \$1,870,000 of outstanding 2003 Series Revenue Bonds with an average interest rate of 4.063%. The net proceeds of \$1,988,403 (after payment of \$31,880 fiscal agency fees and \$2,775 of discount on bonds plus \$3,058 of accrued interest) were used to provide \$7,505 to open the Bond and Interest Redemption Fund for the 2012 issue, and \$1,980,898 to partially refund the 2003 Series Revenue Bond Issue. As a result, \$1,870,000 of 2003 Series Revenue Bonds are considered to be defeased. The School Facilities Construction Commission participation in this issue is \$619,824 while the district portion is \$1,400,176.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS – CONTINUED

On January 01, 2012 the district advance refunded the 2003 Series Revenue Bonds to reduce its total debt service payments over the next 12 (twelve) years by approximately \$174,731 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$152,184

On January 1, 2012, the District issued \$1,635,000 in School Building Revenue Bonds, (Series 2012) with an average interest rate of 2.22% to fund roof projects at Blaine Elementary, Fallsburg Elementary, Louisa East Elementary, and Louisa Middle School. This issue is funded 100% by SFCC.

On February 1, 2012, the District issued \$4,265,000 in Energy Conservation Bonds, (Series 2012) with an average interest rate of 1.725% to fund an energy conservation project with Honeywell. Honeywell has guaranteed energy savings of \$2,835,000 to be applied to the funding of this project. The School Facilities Construction Commission did not participate in this issue.

On March 1, 2008 the district advance refunded \$3,915,000 of the outstanding 2000 Series Revenue Bonds to reduce its total debt service payments over the next 13 (thirteen) years by approximately \$265,545 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$213,382.

On December 29, 2009 the School Facilities Construction Commission advance refunded the Series of 1998 H-1 KISTA SILP Loan. The School Facilities Construction Commission will pay 100% of the Debt Service. Following the refinancing, a total savings of \$34,914 was realized by the Commission and will be available to be applied toward the District's next Bond Issue.

On September 28, 2010, the district issued \$1,815,000 in School Building Refunding Revenue Bonds with an average interest rate 1.211% to advance refund \$1,765,000 of outstanding 1999 Series Revenue Bonds with an average interest rate of 4.101%. The School Facilities Construction Commission participation in this issue is \$154,196 while the district portion is \$1,660,804.

The district advanced refunded the 1999 Series Refunding Revenue Bonds to reduce its total debt service payments over the next 4 (four) years by approximately \$86,242 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$83,816.57.

The following is a summary of the District's bonded debt transactions for the year ended June 30, 2014.

Bonded debt June 30, 2013	\$ 17,392,043
New debt issued	2,320,000
Scheduled principal payments	<u>(1,043,754)</u>
Bonded debt June 30, 2014	\$ <u>18,668,289</u>

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014 for debt service (principal and interest) are as follows:

Year	Lawrence County School District		Federal Interest Rebate	Kentucky School Facilities Construction Commission		Total
	Principal	Interest		Principal	Interest	
2014-15	\$ 780,232	\$ 461,875	\$ (200,000)	\$ 324,510	\$ 96,757	\$ 1,463,373
2015-16	794,369	445,827	(200,000)	301,401	90,158	1,431,755
2016-17	824,687	425,315	(200,000)	308,090	83,469	1,441,561
2017-18	857,811	404,045	(200,000)	267,189	76,731	1,405,776
2018-19	886,078	381,725	(200,000)	273,922	70,288	1,412,013
2019-20	919,309	357,999	(200,000)	280,691	63,299	1,421,298
2020-21	950,147	333,491	(200,000)	254,853	56,446	1,394,938
2021-22	583,369	314,143	(200,000)	176,631	51,437	925,580
2022-23	604,432	300,971	(200,000)	180,568	47,502	933,473
2023-24	441,789	286,428	(200,000)	118,211	43,388	689,816
2024-25	453,466	275,301	(200,000)	121,534	40,065	690,366
2025-26	464,989	263,276	(200,000)	125,011	36,590	689,866
2026-27	491,415	250,235	(200,000)	128,585	33,014	703,249
2027-28	117,251	235,526	(200,000)	132,749	28,850	314,376
2028-29	128,026	231,111	(200,000)	136,974	24,625	320,736
2029-30	123,591	226,258	(200,000)	146,409	19,959	316,217
2030-31	128,622	221,056	(200,000)	151,378	14,633	315,689
2031-32	138,061	215,469	(200,000)	156,939	9,095	319,564
2032-33	141,957	209,519	(200,000)	58,043	3,214	212,733
2033-34	149,477	203,251	(200,000)	45,523	990	199,241
2034-35	-	200,000	(200,000)	-	-	-
2035-36	-	100,000	(100,000)	5,000,000	-	5,000,000
TOTALS	\$ 9,979,078	\$ 6,342,821	\$ (4,300,000)	\$ 8,689,211	\$ 890,509	\$ 21,601,619

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE F – CAPITAL LEASE PAYABLE

On March 1, 2014 the Kentucky Interlocal School Transportation Association (KISTA) entered into an equipment lease and security agreement with the Lawrence County School District. The District received \$406,263 in transportation equipment (four school buses) and is required to make payments over a ten year period at an average interest yield of 1.9280419%.

On January 1, 2009 the Kentucky Interlocal School Transportation Association (KISTA) entered into an equipment lease and security agreement with the Lawrence County School District. The District received \$340,914 in transportation equipment (four school buses) and is required to make payments over a ten year period at an average interest yield of 3.2465%.

The following is a schedule of equipment lease payments, by years of the future minimum lease payments under capital lease:

Year	Principal	Interest	Total Requirements
2014-15	\$ 78,428.00	\$ 14,862.28	\$ 93,290.28
2015-16	80,323.00	13,040.32	93,363.32
2016-17	75,088.00	10,972.86	86,060.86
2017-18	70,547.00	8,922.20	79,469.20
2018-19	72,419.00	6,978.94	79,397.94
2019-20	40,863.00	4,914.12	45,777.12
2020-21	41,603.00	4,096.86	45,699.86
2021-22	42,640.00	3,212.80	45,852.80
2022-23	36,718.00	2,146.80	38,864.80
2023-24	<u>37,902.00</u>	<u>1,137.06</u>	<u>39,039.06</u>
TOTALS	\$ <u>576,531.00</u>	\$ <u>70,284.24</u>	\$ <u>646,815.24</u>

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District entered into a lease on October 1, 2012 for one acre of property located behind the Fallsburg Elementary School. The term of the lease is for five years with an annual lease amount of \$4,200. The District has the option to renew at the end of the lease for an additional five-year term.

Commitments under operating lease agreements provide the minimum future rental payments as of June 30, 2014 as follows:

Year ending June 30:	2015	\$ 4,200
	2016	4,200
	2017	4,200
	2018	<u>4,200</u>
Total minimum payments		\$ <u>16,800</u>

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE H – RETIREMENT PLANS

Pension Plan

The Lawrence County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program, for any salaries paid by that program, pays the matching contribution of 14.105%.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employee Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and one half percent (1.50%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Lawrence County School District's total payroll for the year was \$13,295,204. The payroll for employees covered under KTRS was \$10,474,268. For the year ended June 30, 2014, the Commonwealth contributed \$1,211,285 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2014 were \$198,212, which represents those employees covered by federal programs.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE H – RETIREMENT PLANS-CONTINUED

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholding of 5.00% with an additional 1% for health insurance for employees who began participating on September 01, 2008 or after and a district contribution of 18.89% of the employee's total compensation subject to contribution. The District's contribution for CERS for the year ended June 30, 2014 was \$707,816, which consisted of \$555,439 from the District and \$152,377 from the employees. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan Documents.

Additional information and historical trend information can be obtained from the Annual Financial Report issued by the Kentucky Retirement System at Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE I – DEFERRED COMPENSATION

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457, 401(k), and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements.

NOTE J – COMMITMENTS

The Board has one major construction projects underway at June 30, 2014. .

1. Major renovation project for the Lawrence County High School with a total cost to date, as of June 30, 2014, in the amount of \$5,408,869. The total projected cost for this project is \$5,582,143.

The District issued \$5,000,000, in Qualified Zone Academy Bonds, to fund this project in the 2012-2013 school year.

NOTE K - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE L - LITIGATION

As of the date of this audit, the District is not involved in any material pending or threatened litigation.

NOTE M - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

NOTE N - RISK MANAGEMENT

In prior years the District participated in the Kentucky School Boards' Insurance Trust. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Board Association.

The Kentucky School Board Insurance Trust has incurred losses resulting in an excess of claims over assets. The District's pro rata share of these losses is \$364,207 and has been recorded as a noncurrent liability on the statement of net position. To satisfy this liability, the District has secured funding thru Kentucky Interlocal School Transportation Association (KISTA) Assessment Funding Certificates. The debt is to be repaid over a ten-year period with the first payment due August 15, 2015. The annual payment required by the District is \$42,406 and the average yield on these certificates is 2.8328518%

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE O - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance.

NOTE P - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2014

NOTE Q- TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 33,864
Operating	General	Debt Service	Debt Service	3,239
Operating	Seek	General	Plant operation & maint.	34,479
Operating	Seek	Construction	Construction	20,250
Operating	Seek	Debt Service	Debt Service	212,751
Operating	FSPK	Debt Service	Debt Service	789,339
Capital	Debt Service	Construction	Bond proceeds	2,249,863
Operating	Food Service	General	Indirect Costs	<u>75,041</u>
				<u>\$ 3,418,827</u>

There were no interfund receivables or payable at 06/30/14

NOTE R – ON-BEHALF PAYMENTS

The following on-behalf payments for employee fringe benefits and retirement were made by the State for the Lawrence County School District during the year:

- Health & life insurance: \$2,250,680
- KTRS employer contributions: \$1,212,415
- SFCC contributions: \$583,782

The net amount of these payments was \$4,046,877 and was recorded as revenue under State Aid-Formula Grants and as an offsetting expense for each salary function. Of this amount, \$3,172,696 was recorded in the General Fund financial statements, \$549,609 was recorded in the Debt Fund financial statements, and \$324,572 was recorded in the Food Service financial statements.

NOTE S – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 2014, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	\$ 3,014,766	\$ 3,416,564	\$ 3,621,680	\$ 205,116
Motor vehicle	200,000	200,000	221,748	21,748
Utilities	463,000	463,000	515,978	52,978
Unmined mineral	100,000	100,000	120,176	20,176
Tuition and fees	5,000	5,000	6,450	1,450
Earnings on investments	6,000	6000	3,724	(2,276)
Other local revenues	138,200	150,700	72,717	(77,983)
Intergovernmental - state	9,860,727	9,512,932	12,708,317	3,195,385
Intergovernmental - indirect federal	100,000	70,000	81,698	11,698
Intergovernmental - direct federal			-	-
Total revenues	13,887,693	13,924,196	17,352,488	3,428,292
Expenditures:				
Instruction	8,035,071	8,152,615	10,025,551	(1,872,936)
Support services:				
Student	462,423	623,271	724,604	(101,333)
Instruction staff	509,221	480,711	562,926	(82,215)
District administrative	432,965	397,684	481,932	(84,248)
School administrative	876,805	808,097	1,004,547	(196,450)
Business	181,341	189,795	248,002	(58,207)
Plant operation and maintenance	2,300,918	2,496,013	2,761,916	(265,903)
Student transportation	1,663,428	1,911,885	2,162,751	(250,866)
Central office	-	-	-	-
Non-instructional	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	5,600	5,600	6,110	(510)
Other	431,500	595,033	40,267	554,766
Total expenditures	14,899,272	15,660,704	18,018,606	(2,357,902)
Excess (deficit) of revenues over expenditures	(1,011,579)	(1,736,508)	(666,118)	1,070,390
Other Financing Sources (Uses)				
School Building Revenue Bond Series of 2013	-	-	-	-
Sale or compensation for loss of assets	-	-	37,013	37,013
Operating transfers in	61,579	78,094	109,521	31,427
Operating transfers out	(50,000)	(50,000)	(37,103)	12,897
Total other financing sources (uses)	11,579	28,094	109,431	81,337
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,000,000)	(1,708,414)	(556,687)	1,151,727
Fund balance, July 1, 2013, as originally stated	1,000,000	1,708,414	1,708,414	-
Prior period adjustment	-	-	-	-
Fund balance, June 30, 2014	\$ -	\$ -	\$ 1,151,727	\$ 1,151,727

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE
Year ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicle	-	-	-	-
Utilities	-	-	-	-
Unmined mineral	-	-	-	-
Tuition and fees	-	-	-	-
Earnings on investments	-	101	152	51
Other local revenues	-	7,000	2,281	(4,719)
Intergovernmental - state	1,206,065	1,116,456	1,139,625	23,169
Intergovernmental - indirect federal	2,017,132	2,324,251	2,497,377	173,126
Intergovernmental - direct federal	60,098	70,160	63,254	(6,906)
Total revenues	3,283,295	3,517,968	3,702,689	184,721
Expenditures:				
Instruction	2,424,892	2,499,011	2,589,853	(90,842)
Support services:				
Student	12,160	12,831	23,073	(10,242)
Instruction staff	655,536	797,088	877,775	(80,687)
District administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	2,000	-	2,000
Student transportation	-	-	-	-
Central office	-	-	-	-
Non-instructional	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	240,707	240,902	245,852	(4,950)
Other	-	-	-	-
Total expenditures	3,333,295	3,551,832	3,736,553	(184,721)
Excess (deficit) of revenues over expenditures	(50,000)	(33,864)	(33,864)	-
Other Financing Sources (Uses)				
School Building Revenue Bond Series of 2013	-	-	-	-
Sale or compensation for loss of assets	-	-	-	-
Operating transfers in	50,000	33,864	33,864	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	50,000	33,864	33,864	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2013, as originally stated	-	-	-	-
Prior period adjustment	-	-	-	-
Fund balance, June 30, 2014	\$ -	\$ -	\$ -	\$ -

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	SEEK Capital Outlay Fund	FSPK FUND	SCHOLARSHIP FUND	Total Nonmajor Governmental Funds
Assets and Resources:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Inventory	-	-	-	-
Accounts receivable	-	-	-	-
Taxes - current	-	-	-	-
Taxes - delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Intergovernmental - State	-	-	-	-
Intergovernmental - Indirect Federal	-	-	-	-
Intergovernmental - Direct Federal	-	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
Interest receivable	-	-	-	-
Investments	-	-	-	-
Furniture and equipment, net	-	-	-	-
Total Assets and Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR FUNDS**

Year ended June 30, 2014

	SEEK Capital Outlay Fund	FSPK FUND	SCHOLARSHIP FUND	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicle	-	-	-	-
Utilities	-	420,656	-	420,656
Occupational license fee	-	-	-	-
Tuition and fees	-	-	-	-
Earnings on investments	274	1,546	-	1,820
Other local revenues	-	-	3,500	3,500
Intergovernmental - State	212,477	349,575	-	562,052
Intergovernmental - Indirect Federal	-	-	-	-
Intergovernmental - Direct Federal	-	-	-	-
Total Revenues	<u>212,751</u>	<u>771,777</u>	<u>3,500</u>	<u>988,028</u>
Expenditures				
Instruction	-	-	-	-
Support services:				
Student	-	-	-	-
Instruction staff	-	-	-	-
Direct administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Facilities and construction	-	-	-	-
Community service activities	-	-	3,500	3,500
Other	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>3,500</u>	<u>3,500</u>
Excess (deficit) of revenues over expenditures	212,751	771,777	-	984,528
Other Financing Sources (Uses)				
Proceeds from sale of bonds	-	-	-	-
Capital lease proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(267,480)	(789,339)	-	(1,056,819)
Total Other Financing Sources (Uses)	<u>(267,480)</u>	<u>(789,339)</u>	<u>-</u>	<u>(1,056,819)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(54,729)	(17,562)	-	(72,291)
Fund balance, July 1, 2013 as originally stated	54,729	17,562	-	72,291
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
LAWRENCE COUNTY SCHOOL DISTRICT ACTIVITY FUNDS
For the year ended June 30, 2014

Lawrence County High School

Activity Fund	Cash Balance June 30, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balance June 30, 2014
Academic Team	\$ 50	\$ 0	\$ 0	\$ 50	\$ 0	\$ 0	\$ 50
Archery	375	0	0	375	0	0	375
Art	173	287	204	256	0	136	120
Athletic	12,640	116,328	111,648	17,320	602	0	17,922
Carpentry	24	0	0	24	0	0	24
Class of 2014	463	24,344	24,807	0	0	0	0
Class of 2015	198	8,968	8,558	608	0	0	608
Class of 2016	238	334	0	572	0	0	572
Class of 2017	0	767	724	43	0	0	43
Close the Deal	0	1,000	690	310	0	0	310
Coke (Student)	1,112	4,586	4,999	699	0	0	699
Coke (Teacher)	33	1,892	1,312	613	0	0	613
Culinary	285	270	220	335	0	0	335
D.E.C.A.	6	0	6	0	0	0	0
Drama Club	433	615	246	802	0	0	802
F.C.C.L.A.	204	278	210	272	0	0	272
F.F.A	739	7,891	8,480	150	0	0	150
H.O.S.A.	352	1,269	841	780	0	0	780
Humanities	892	0	150	742	0	0	742
KYA	0	5,950	5,950	0	0	0	0
Library	5,405	2,367	3,387	4,385	71	0	4,456
Locker	3,300	3,030	62	6,268	0	6,268	0
Miscellaneous	907	6,181	7,012	76	10	0	86
Music	1,953	2,412	2,190	2,175	0	0	2,175
National Honor Society	537	475	566	446	0	0	446
Pep Club	101	2,384	2,473	12	0	0	12
R.O.T.C.	828	643	842	629	0	330	299
Science	131	217	348	0	0	0	0
Skills USA	393	2,569	1,702	1,260	0	0	1,260
Text Book	0	3,356	3,356	0	0	0	0
TSA	71	0	71	0	0	0	0
Vending Machine	248	562	176	634	0	0	634
World Language Club	0	468	388	80	0	0	80
Yearbook 2	2,193	3,955	4,892	1,256	0	0	1,256
Youth Service Center	4	5,786	5,319	471	0	0	471
Subtotals	34,288	209,184	201,829	41,643	683	6,734	35,592
Less Inter-Fund Transfers		(2,874)	(2,874)				
Lawrence Co. High School Totals	34,288	206,310	198,955	41,643	683	6,734	35,592
Other Schools							
Louisa Middle School	34,387	94,133	90,893	37,627	249	2,854	35,022
Louisa Elementary East	14,531	110,623	107,748	17,406	0	3,556	13,850
Louisa Elementary West	10,436	30,305	28,131	12,610	0	2,054	10,556
Blaine Elementary	17,352	43,646	46,664	14,334	0	1,148	13,186
Fallsburg Elementary	15,530	85,820	89,042	12,308	0	0	12,308
Totals	\$ 126,524	\$ 570,838	\$ 561,434	\$ 135,928	\$ 932	\$ 16,346	\$ 120,514

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ <u>Program title</u>	Federal CFDA <u>Number</u>	Pass- thru Grantor's <u>Number</u>	<u>Federal Expenditures</u>	
Direct Programs:				
<u>U S Dept of Defense</u>				
Reserve Officer Training Corp	12.000	Proj 5044	\$	63,254
Total US Dept of Defense				<u>63,254</u>
Indirect Programs:				
Child Nutrition Cluster:				
<u>US Department of Agriculture</u>				
Passed through State Dept of Education:				
National School Lunch Program	10.555	0575-13-02	118,977	
National School Lunch Program	10.555	0575-14-02	<u>788,204</u>	907,181
School Breakfast Program	10.553	0576-13-05	<u>79,287</u>	
School Breakfast Program	10.553	0576-14-05	<u>259,290</u>	338,577
Fresh Fruit and Vegetable Program	10.582	Proj 2154	<u>2,144</u>	
Fresh Fruit and Vegetable Program	10.582	Proj 2154	<u>6,799</u>	8,943
Passed through State Dept of Ag:				
National School Lunch Program- Food Distrib(In-Kind Commodities)	10.555	N/A		<u>43,751</u>
Total Pass Through Programs				<u>1,298,452</u>
Total Child Nutrition Cluster				<u>1,298,452</u>
TOTAL U.S. DEPT. OF AGRICULTURE				<u>1,298,452</u>
<u>US Department of Education</u>				
Passed through State Dept of Education:				
Title I Grants to Local Educational Agencies	84.010A	0531-03-01	368,299	
Title I Grants to Local Educational Agencies	84.010A	0531-04-01	<u>973,406</u>	1,341,705
Title I Professional Development	84.010	Proj 3103 D		109,263
Title I Parent Involvement	84.010	Proj 3104 M		8,949
Vocational Education Basic Grants to States-Title II C	84.048	5462-03-32	6,225	
Vocational Education Basic Grants to States-Title II C	84.048	5462-04-32	<u>25,169</u>	31,394
Perkins Title I Part C Vocational	84.048	Proj 3483A		111
Rural Education-Title 6	84.358B	0350-04-02		42,627
<u>SPECIAL EDUCATION CLUSTER (IDEA)</u>				
Special Education-IDEA-B	84.027A	0581-02-02	41,155	
Special Education-IDEA-B	84.027A	0581-03-02	449,009	
Special Education-Preschool Grants-IDEA-B-P	84.173A	0587-02-02	9,595	499,759

See independent auditor's report and accompanying notes to financial statements

LAWRENCE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-CONTINUED
Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ <u>Program title</u>	Federal CFDA Number	Pass- thru Grantor's Number		Federal Expenditures
Twenty-First Century Community Learning Centers	84.287	Proj 5502 C,Q & S	36,628	
Twenty-First Century Community Learning Centers	84.287	Proj 5503 C,Q & S	106,285	142,913
Improving Teacher Quality State Grants	84.367A	0710-02-02	7,425	
Improving Teacher Quality State Grants	84.367A	0710-03-02	169,013	176,438
Title I School Improvement ARRA LCHS	84.388A	Proj 5600C		54,142
Adult Education Federal	84.002A	Proj 3734		55,257
Race to the Top	84.413A	Proj 4521		14,044
Passed through State Dept of Voc Rehab:				
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	Proj 3764		20,775
				<u>2,497,377</u>
TOTAL US DEPT OF EDUCATION				
				<u>\$ 3,859,083</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lawrence County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the organization had total inventory of \$41,578.

Daniel S. Howard, P.S.C.

Certified Public Accountant

P.O. Box 809
2425 Route 2565
Louisa, Kentucky 41230
Phone (606) 638-4470

***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON A AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the provisions of Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract-General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report; The financial statements of the governmental activities, the business – type activities, each major fund, and the aggregate remaining fund information of Lawrence County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lawrence County School District's Basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lawrence County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lawrence County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawrence County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

We noted certain matters that we reported to management of the Lawrence County School District in a separate letter dated December 12, 2014.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Daniel J. Howard, CPA". The signature is written in a cursive, flowing style.

December 12, 2014

Daniel S. Howard, P.S.C.

Certified Public Accountant

P.O. Box 809
2425 Route 2565
Louisa, Kentucky 41230
Phone (606) 638-4470

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lawrence County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lawrence County School District's major federal programs for the year ended June 30, 2014. Lawrence County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lawrence County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issues by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract - State Audit Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lawrence County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lawrence County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lawrence County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended on June 30, 2014.

Report on Internal Control Over Compliance

Management of Lawrence County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lawrence County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lawrence County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Daniel J. Howard, CPA". The signature is written in a cursive style.

December 12, 2014

LAWRENCE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED June 30, 2014

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es)
identified?

_____yes

_____x_____no

Significant deficiency(ies) identified?

_____yes

_____x_____none reported

Noncompliance material to financial statements noted?

_____yes

_____x_____no

Federal Awards

Internal control over major programs:

Material weakness(es)
identified?

_____yes

_____x_____no

Significant deficiency(ies) identified?

_____yes

_____x_____none reported

Type of auditor's reports issued on compliance for major programs :

Unmodified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of OMB Circular A-133?

_____yes

_____x_____no

Identification of major programs

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>
U.S Department of Agriculture	
National School Lunch Program	10.555
School Breakfast Program	10.553
Fresh Fruit and Vegetable Program	10.582
U.S, Department of Education	
Title I Grants to Local Educational Agencies	84.010A
Special Education-IDEA-B	84.027A
Special Education-Preschool Grants-IDEA-B-P	84.173A

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____x_____yes

_____no

**Section 2: Audit Findings On Compliance And Internal Control Over Financial Reporting
In Accordance With Government Auditing Standards**

No new findings

**Section 3: Audit Findings On Compliance With Requirements Applicable To Each Major
Program And Internal Control Over Compliance In Accordance With OMB Circular
A-133.**

No new findings.

LAWRENCE COUNTY SCHOOL SYSTEM

50 Bulldog Lane
Louisa, Ky. 41230
(606-638-9671)

AUDITEE'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Audit findings: All prior year comments were addressed by the District and corrections made.

Daniel S. Howard, P.S.C.

Certified Public Accountant

P.O. Box 809
2425 Route 2565
Louisa, Kentucky 41230
Phone (606) 638-4470

December 12, 2014

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

In planning and performing our audit of the financial statements of Lawrence County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of instances that are opportunities for strengthening internal controls and operating efficiency, which were not material to the financial statements. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated December 12, 2014 contains our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards. This letter does not affect that report or our report dated December 12, 2014 on the financial statements of the Lawrence County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink that reads "Daniel S. Howard CPA". The signature is fluid and cursive, with the initials "DSH" being prominent at the start.

Daniel S. Howard, P.S.C.
Certified Public Accountant

LAWRENCE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED June 30, 2014

STATUS OF PRIOR YEARS FINDINGS:

Prior years findings have been addressed and the District is taking corrective action.

Current year finding 14-01 is a repeat finding from the prior year.

Current year finding 14-01 is the same as finding 13-02 from the prior year. Because it is impractical to hire additional employees and principal and assistant principals are not always available, this will be an ongoing condition.

CURRENT YEAR FINDINGS:

14-01: Segregation of Duties in Activity Funds

Condition: Presently, the various activity funds have an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The Activity Funds should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to the small size of office staff at the individual schools there are limited options for establishing adequate segregation of duties.

Effect of Deficiency: Cash or inventory items could be misappropriated without being detected on a timely basis.

Recommendation: Principals or assistant principals should be utilized more with the cash receipt process and preparing bank deposits.

Management Comment: Internal audits are being utilized to monitor this condition.

14-02: Fundraiser Worksheets not being utilized by some of the activities at the High School.

Condition: Various activity funds that engaged in fundraising activities did not complete fundraising or inventory control worksheets.

Criteria: The Activity Funds engaging in fundraising activities should complete worksheets to provide reasonable assurance that the safeguarding of cash, inventory and financial records be maximized.

Cause of Condition: Sponsors engaging in fundraising are not fulfilling their duty to provide a summary of individual fundraising activities.

Effect of Deficiency: Cash or inventory items could be misappropriated without being detected on a timely basis.

Recommendation: Fundraisers should not be approved for sponsors who disregard their duty to complete control worksheets, additionally invoices for fundraisers should not be paid until worksheets have been completed.

Management Comment: New secretaries are in place and have been instructed not to disburse funds until worksheets have been completed.

LAWRENCE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS-CONTINUED
FOR THE YEAR ENDED June 30, 2014

14-03: Booster organization financial reports missing at High School.

Condition: Management has advised the booster organizations of this requirement but has not followed through on its enforcement.

Criteria: Annual financial reports are due July 15.

Cause of Condition: Booster organizations have not taken this requirement seriously.

Effect of Deficiency: Booster organizations may not be operating within the guidelines of the new Redbook.

Recommendation: Booster clubs should be banned unless they fulfill their obligations to the school.

Management Comment: Management will take this recommendation under advisement.

14-04: Concession sales inventory control sheets and the Scentsy fundraiser worksheet were missing at the Louisa Middle School.

Condition: The school secretary responsible for either preparing and /or seeing they were prepared, did not follow up on their preparation and did not acquire these worksheets.

Criteria: The Activity Funds should follow the guidelines as outlined in the new Redbook.

Cause of Condition: Due to a lack of oversight, the worksheets were not acquired..

Effect of Deficiency: Cash, inventory items or assets could be misappropriated without being detected on a timely basis.

Recommendation: Principals and/or assistant principals should oversee activity fund records to make sure they are complete. Additionally, training will help ensure proper record maintenance.

Management Comment: Management will take this recommendation under advisement.

LAWRENCE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS-CONTINUED
FOR THE YEAR ENDED June 30, 2014

14-05: Some fundraiser worksheets were missing at the Louisa Elementary West.

Condition: Various activity funds that engaged in fundraising activities did not complete fundraising or inventory control worksheets.

Criteria: The Activity Funds engaging in fundraising activities should complete worksheets to provide reasonable assurance that the safeguarding of cash, inventory and financial records be maximized.

Cause of Condition: Sponsors engaging in fundraising are not fulfilling their duty to provide a summary of individual fundraising activities.

Effect of Deficiency: Cash or inventory items could be misappropriated without being detected on a timely basis.

Recommendation: Fundraisers should not be approved for sponsors who disregard their duty to complete control worksheets, additionally invoices for fundraisers should not be paid until worksheets have been completed.

Management Comment: Management will take this recommendation under advisement

14-06: Receipt numbers not listed on deposit tickets.

Condition: Redbook guidelines not being followed.

Criteria: The New Redbook requires receipt numbers be listed on deposit tickets.

Cause of Condition: Lack of training of school secretaries on new Redbook requirements and oversight.

Effect of Deficiency: Difficult to track the flow of funds.

Recommendation: Principals and/or assistant principals should oversee activity fund records to make sure they are complete. Additionally, training will help ensure proper record maintenance.

Management Comment: Management will take this recommendation under advisement